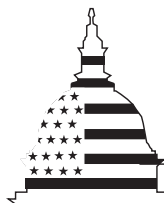


May 2007

DEFENSE BUDGET

Trends in Operation and Maintenance Costs and Support Services Contracting



G A O

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Highlights of [GAO-07-631](#), a report to congressional committees

Why GAO Did This Study

The Department of Defense (DOD) spent about 40 percent of the total defense budget to operate and maintain the nation's military forces in fiscal year 2005. Operation and maintenance (O&M) funding is considered one of the major components of funding for readiness. O&M appropriations fund the training, supply, and equipment maintenance of military units as well as the infrastructure of military bases. Over the past several years, DOD has increasingly used contractors, rather than uniformed or DOD civilian personnel, to provide O&M services in areas such as logistics, base operations support, information technology services, and administrative support.

The House Appropriations Committee directed GAO to examine growing O&M costs and support services contracting. This GAO report (1) identifies the trends in O&M costs and services contracts and the reasons for the trends, (2) discusses whether increased services contracting has exacerbated the growth of O&M costs, and (3) provides perspectives on the benefits and concerns associated with increased contracting for support services. GAO analyzed DOD's O&M appropriations, budgets, and services contract costs over a 10-year period and developed case studies of outsourced O&M-related work at three installations. GAO is not making any recommendations. DOD made only technical comments on a draft of this report.

www.gao.gov/cgi-bin/getrpt?GAO-07-631.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Brian Lepore at (202) 512-4523 or leporeb@gao.gov.

DEFENSE BUDGET

Trends in Operation and Maintenance Costs and Support Services Contracting

What GAO Found

DOD's O&M and services contract costs increased substantially between fiscal years 1995 and 2005, with most growth occurring since fiscal year 2001. DOD's O&M costs were almost constant between fiscal years 1995 and 2000. However, between fiscal years 2000 and 2005, DOD's O&M costs increased from \$133.4 billion to \$209.5 billion—an increase of \$76.1 billion, or 57 percent, in constant fiscal year 2007 dollars. This growth was primarily caused by increased military operations associated with the global war on terrorism and other contingencies. In addition to increased O&M costs, DOD has increasingly relied on contractors to perform O&M-related work. Between fiscal years 2000 and 2005, DOD's services contract costs in O&M-related areas increased by 73 percent. According to DOD and service officials, several factors have contributed to the increased use of contractors for support services: (1) increased O&M requirements from the global war on terrorism and other contingencies, which DOD has met without an increase in active duty and civilian personnel, (2) federal government policy, which is to rely on the private sector for needed commercial services that are not inherently governmental in nature, and (3) DOD initiatives, such as its competitive sourcing and utility privatization programs.

Sufficient data are not available to determine whether increased services contracting has caused DOD's costs to be higher than they would have been had the contracted activities been performed by uniformed or DOD civilian personnel. Because existing policy generally does not require a public/private competition for contractor performance of a new or expanded commercial requirement, in-house cost estimates have not been prepared for most of the work awarded to contractors as a result of increased O&M requirements from expanded military operations. Without this information, an overall determination cannot be made of the effect of increased services contracting on O&M cost growth. DOD does maintain data from its competitive sourcing, or A-76, program. GAO's analysis of the military services' reported information on 538 A-76 decisions during fiscal years 1995 through 2005 to contract out work formerly performed by uniformed and DOD civilian personnel showed that the decisions generally resulted in reducing the government's costs for the work. However, the number of A-76 public/private competition contracts is relatively small and the results from this program may not be representative of the results from all services contracts for new or expanded O&M work.

Although DOD officials have cited certain benefits from increased use of contractors for support services, such as allowing more uniformed personnel to be available for combat missions, concerns have also been cited. For example, Congress recently required DOD to prescribe guidelines giving consideration to performing more work using government employees and GAO has noted concerns over DOD's approach to services acquisition.

Contents

Letter		1
	Results in Brief	2
	Background	6
	O&M and Services Contract Costs Have Increased Significantly	7
	Data Are Insufficient to Determine Whether Increased Services Contracting Has Exacerbated O&M Cost Growth	18
	Different Perspectives Exist on the Benefits and Concerns Associated with Increased Contracting for Support Services	29
	Concluding Observations	32
	Agency Comments	32
Appendix I	Scope and Methodology	35
Appendix II	GAO Contact and Staff Acknowledgments	37
Tables		
	Table 1: Changes in Service Contract Costs in Selected Categories	16
	Table 2: A-76 Public/Private Competition Decisions for Fiscal Years 1995 through 2005	19
Figures		
	Figure 1: O&M Costs for Fiscal Years 1995 through 2005	8
	Figure 2: Percent Change in DOD Costs by Major Budget Category from Fiscal Year 1995 to 2000	9
	Figure 3: Percent Change in DOD Costs by Major Budget Category from Fiscal Year 2000 to 2005	10
	Figure 4: Percent Change in the Services' O&M Costs	11
	Figure 5: Supplemental O&M Appropriations for Fiscal Years 2000 through 2005	13
	Figure 6: Services' O&M Costs with and without Supplemental Funding, Transfers, and Reprogrammings	14
	Figure 7: First Performance Period Results from Army A-76 Public/Private Competition Decisions to Outsource Work between Fiscal Years 1995 and 2005	20

Figure 8: First Performance Period Results from Navy and Marine Corps A-76 Public/Private Competition Decisions to Outsource Work between Fiscal Years 1995 and 2005	21
Figure 9: First Performance Period Results from Air Force A-76 Public/Private Competition Decisions to Outsource Work between Fiscal Years 1995 and 2005	22

Abbreviations

DOD	Department of Defense
GWOT	global war on terrorism
O&M	operation & maintenance

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United States Government Accountability Office
Washington, DC 20548

May 18, 2007

Congressional Committees

The Department of Defense (DOD) spent about \$210 billion, or 40 percent of the total defense budget, to operate and maintain the nation's military forces in fiscal year 2005.¹ As a major component of DOD's funding for readiness, operation and maintenance (O&M) appropriations fund the training, supply, and equipment maintenance of military units as well as the administrative and facilities infrastructure of military bases. Over the past several years, DOD has increasingly used private sector contractors, rather than uniformed or DOD civilian personnel, to provide O&M-related services in areas such as logistics, weapon systems, and base operations support; information technology services; and administrative support.

In its June 2006 report accompanying the DOD Appropriations Bill, 2007, the House Appropriations Committee expressed concern about the increasing costs of operating our military forces.² The committee further stated that this trend may have been exacerbated by efforts to contract out a substantial portion of the military services' logistic and support activities. To gain better insight about the costs and consequences of contracting out, as well as other factors generating an increase in operation and maintenance costs, the committee directed us to prepare a comprehensive analysis covering fiscal years 1995 through 2005. Accordingly, this report (1) identifies the trends in O&M costs and services contracts and the reasons for the trends, (2) discusses whether increased services contracting has exacerbated the growth of O&M costs, and (3) provides perspectives on the benefits and concerns associated with increased contracting for support services.

To address these objectives, we reviewed and analyzed DOD's O&M appropriations, budget documentation, and services contract costs and identified the related trends for fiscal years 1995 through 2005. To consider inflation, we adjusted cost data to constant fiscal year 2007 dollars using

¹Unless otherwise stated, operation and maintenance (O&M) costs in this report are total obligation authority and are expressed in constant fiscal year 2007 dollars.

²H.R. Rep. No. 109-504, at 46-47 (2006).

DOD's adjustment factors.³ We discussed with DOD and service headquarters officials the reasons for the trends and how greater reliance on the private sector for O&M activities formerly performed in-house has affected the overall O&M budget. We also assessed the availability of information related to services contracts, reviewed and analyzed information from DOD's competitive sourcing, or A-76, program, and visited three installations to develop case study examples of O&M-related work that was contracted out either as a result of A-76 public/private competitions or because the uniformed personnel who formerly performed the work were needed to support other missions. For the case study examples, we identified cost estimates for the work when performed by government employees, the reasons that the work was contracted out, the actual contract costs, and the reasons for any contract cost growth. We did not review the actual contracts. In reviewing contract costs, we relied on cost data provided by installation officials. We also discussed with installation officials any consequences associated with increased contracting out of O&M work. Additionally, we examined DOD's response to recent legislation requiring DOD to consider performing more work by government employees, reviewed steps recently taken by the military services to control support services contract costs, and summarized our recent reports concerning DOD's acquisition of services.

We conducted our review from August 2006 through March 2007 in accordance with generally accepted government auditing standards. A more detailed description of our scope and methodology is included in appendix I.

Results in Brief

Largely driven by increased military operations related to the global war on terrorism (GWOT) and other military contingencies, DOD's O&M and services contract costs increased substantially since fiscal year 2001. DOD's O&M costs were almost constant from fiscal years 1995 to 2000, increasing by about 2 percent in the Army and declining about 1 percent in the Navy and Marine Corps and 2 percent in the Air Force. However, between fiscal years 2000 and 2005, DOD's O&M costs, including supplemental O&M funds, increased from \$133.4 billion to \$209.5 billion, an increase of \$76.1 billion, or 57 percent. Among the military services

³Office of the Under Secretary of Defense (Comptroller), *National Defense Budget Estimates for Fiscal Year 2007*, "Table 5-4, Department of Defense Deflators—Total Obligation Authority" (Washington, D.C.: March 2006).

during this period, O&M costs increased by 137 percent in the Army, 30 percent in the Navy and Marine Corps, and 29 percent in the Air Force. Most of this growth occurred since fiscal year 2001 and was primarily caused by increased military operations associated with GWOT and other contingencies such as hurricane relief. In addition, DOD and service officials stated that other factors also contributed to the growth in O&M costs, such as the aging of military infrastructure and equipment; increased costs for installation security, antiterrorism force protection, communications, information technology, transportation, fuel, and utilities; and certain changes in acquisition approaches. While O&M costs have increased, so has DOD's reliance on contractors to perform O&M-related work. For example, between fiscal years 2000 and 2005, DOD's service contract costs in O&M-related areas increased by 73 percent. According to DOD and service officials, several factors have contributed to the increased use of contractors for support services. First, the GWOT and other contingencies have significantly increased O&M requirements and DOD has met these requirements without an increase in active duty and civilian personnel. To do this, DOD relied not only on reserve personnel activations, but also on increased use of contractor support. Second, federal government policy is to rely on the private sector for needed commercial services that are not inherently governmental in nature, which includes many of the requirements generated from the GWOT in areas such as logistics and base operations support. Third, some initiatives, such as DOD's competitive sourcing and utility privatization programs, have resulted in greater reliance on the private sector.

Sufficient data are not available to determine whether increased services contracting has caused DOD's costs to be higher than they would have been had the contracted activities been performed by uniformed or DOD civilian personnel. Because existing policy generally does not require a public/private competition for private sector performance of a new requirement or segregable expansion of an existing commercial activity performed by government personnel, DOD officials stated that in-house cost estimates have not been prepared for most of the work awarded to contractors as a result of increased O&M requirements from GWOT and other contingencies. Without this information, an overall determination cannot be made of the effect of increased services contracting on O&M cost growth. DOD does maintain detailed data from its competitive sourcing program, commonly referred to as the A-76 program. These data include information on contracts for work formerly performed in-house

that were awarded to the private sector as a result of a public/private cost competition.⁴ Our analysis of the military services' reported information on 538 decisions during fiscal years 1995 through 2005 to contract out work formerly performed by uniformed and DOD civilian personnel showed that the decisions generally resulted in reducing the government's costs for the work. However, compared to all O&M-related contracts, the number of A-76 public/private competition contracts is small and the results from this program may not be representative of the results from all services contracts for new or expanded O&M work. DOD officials further noted that outsourcing work formerly performed by uniformed personnel may reduce the cost of the work but also increase O&M costs because military personnel appropriations are used to compensate uniformed personnel and O&M appropriations are used to pay contractors for their services.

Differing perspectives exist on the benefits and concerns associated with increased contracting for support services. DOD officials noted that under certain circumstances increased use of contractors for support services can be beneficial by allowing more uniformed personnel to be available for combat missions and providing certain support capabilities that are in short supply in the active and reserve components. On the other hand, concerns over increased contracting for support services have been cited by the Congress, the military services, and us. For example, the Congress recently required DOD to prescribe guidelines giving consideration to performing more work using government employees. Section 343 of the National Defense Authorization Act for Fiscal Year 2006 required the Secretary of Defense to prescribe guidelines and procedures for ensuring that consideration is given to using government employees for work that is currently performed or would otherwise be performed by contractors.⁵ In February 2007, DOD officials stated that they plan to issue the required guidance in the near future and that the use of government employees instead of contractors to meet O&M-related requirements in some circumstances might result in savings. Further, citing the need to control costs and achieve fiscal efficiencies, the Army and the Air Force recently issued policy memorandums calling for a reduction in services contract costs. The Secretary of the Army stated in a January 2007 memorandum that he expected to see significant reductions in the number of Army

⁴Under the A-76 program prior to 2003, commercial activities involving 10 or fewer full time employees could be directly converted to performance by a private contractor without a cost comparison under certain circumstances.

⁵National Defense Authorization Act for Fiscal Year 2006, Pub. L. No. 109-163, § 343 (2006).

contracted services personnel during the remainder of fiscal year 2007 and the Secretary of the Air Force set targets for realizing estimated savings in Air Force support services contract costs.⁶ Navy officials stated that although they had not issued any new policy on contracted services, the issue is a concern and the Navy had reduced its planned contractor support budgets in both fiscal year 2007 and 2008. At the three installations we visited, local officials also cited concerns over increased contracting for support services—such as the loss of flexibility that is inherent with the use of uniformed and DOD civilian personnel in some circumstances, the difficulty in preparing accurate contract statements of work to help avoid contract modifications, and the availability of sufficient resources to ensure adequate contract oversight. Finally, in November 2006, we reported that DOD’s approach to services acquisition did not always take the necessary steps to ensure that customer needs were translated into well-defined contract requirements or that postcontract award activities resulted in expected outcomes.⁷ As a result, DOD was potentially exposed to a variety of risks, including purchasing services that did not fully meet customer needs or that should have been provided in a different manner or with better results. DOD concurred with the report’s recommendations to address these concerns and stated that the department was taking or planned to take actions to improve the acquisition of services.

Although there may be some merit in DOD developing more information on the cost-effectiveness of its O&M services contracts that were not awarded through the A-76 public/private competitive process, at this time we are not recommending that DOD do this because performing the analyses to determine the estimated in-house costs to perform this work can be expensive and time consuming; contracting with the private sector may be the only alternative to meet certain requirements in the short term, especially during times of increased operations; and, as long as DOD uses competition in its contract solicitations for new and expanded requirements and provides adequate contract oversight, cost efficiencies could be achieved through normal market forces. DOD made no

⁶Secretary of the Army, Memorandum for Distribution, Subject: *Improved Management and Justification of Service Contract Requirements* (Washington, D.C.: Jan. 29, 2007); and Secretary of the Air Force, Memorandum for All Major Commands, Subject: *Contractor Support Approval Authority Policy Memo 06A-002* (Washington, D.C.: Mar. 9, 2006).

⁷GAO, *Defense Acquisitions: Tailored Approach Needed to Improve Service Acquisition Outcomes*, [GAO-07-20](#) (Washington, D.C.: Nov. 9, 2006).

comments on a draft of this report except for technical comments, which we incorporated where appropriate.

Background

O&M appropriations support the training, supply, and equipment maintenance of military units as well as the administrative and facilities infrastructure of military bases. Along with military personnel costs, which are funded with separate military personnel appropriations, O&M funding is considered one of the major components of DOD's funding for readiness.

O&M funds provide for a diverse range of programs and activities that include the salaries and benefits for most DOD civilian employees; depot maintenance activities; fuel purchases; flying hours; base operations; consumable supplies; health care for active duty service personnel and other eligible beneficiaries; reserve component operations; and DOD-wide support functions including several combat support agencies, four intelligence agencies, and other agencies that provide common information services, contract administration, contract audit, logistics, and administrative support to the military departments.

The Congress provides O&M appropriations to 11 service-oriented O&M accounts—the Army, Navy, Marine Corps, Air Force, Army Reserve, Navy Reserve, Marine Corps Reserve, Air Force Reserve, Army National Guard, Air National Guard, and defensewide—and to program accounts, such as the defense health program. In addition to the regular annual O&M appropriations, the Congress can make supplemental O&M appropriations to finance the incremental costs above the peacetime budget that are associated with contingencies, such as the GWOT.

Since late 1995, DOD has encouraged the services and the defense agencies to conduct cost comparison studies as provided for in the Office of Management and Budget's Circular A-76. Under the A-76 process, otherwise known as competitive sourcing, the military services and other defense components conduct a public/private competition for a commercial activity currently performed by government personnel to determine whether it would be cost-effective to contract with the private sector for that activity's performance. On the other hand, a public/private competition is not required for private sector performance of a new requirement, private sector performance of a segregable expansion of an existing commercial activity performed by government personnel, or continued private sector performance of a commercial activity. However, before government personnel may perform a new requirement, an

expansion to an existing commercial activity, or an activity performed by the private sector, a public/private competition is required to determine whether government personnel should perform the commercial activity.

The DOD Commercial Activities Management Information System is DOD's database of record established to meet reporting requirements on the conduct of A-76 competitions and the results from implementing A-76 decisions, whether the decisions are to continue using government employees to perform the work or to outsource the work. For contracts awarded to the private sector, the database includes the estimated cost to perform the work using government employees, the contract award amount, the actual contract cost for each contract performance period, and brief reasons for any cost growth over the performance periods. A contract performance period is normally for 12 months, although the first performance period may cover a shorter transition period when the work is initially conveyed to the contractor. Contract information is to be maintained through the end of the last performance period included in the competition. Installation officials are responsible for reporting information on the A-76 program for input into the DOD database.

O&M and Services Contract Costs Have Increased Significantly

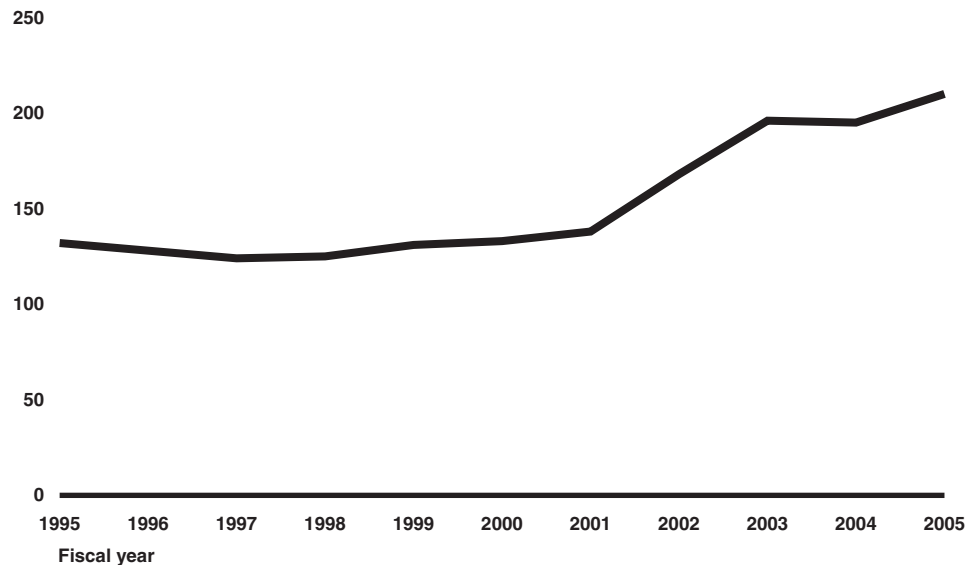
Driven primarily by increased operations associated with GWOT and other contingencies, DOD's O&M costs increased substantially between fiscal years 1995 and 2005, with the most growth occurring since fiscal year 2001. DOD's reliance on contractors for support services also increased substantially during this period in order to meet increased military requirements without an increase in active duty and civilian personnel and because federal government policy is to rely on the private sector for needed commercial services that are not inherently governmental in nature, which includes many of the requirements generated from the GWOT in areas such as logistics and base operations support.

Most Growth in O&M Costs Occurred since Fiscal Year 2001

Although DOD's O&M costs increased significantly between fiscal years 1995 and 2005, there was a distinct difference in the rate of growth between the early and latter years of this 10-year period. Specifically, as shown in figure 1, DOD's annual O&M costs were practically constant until 2001, when the costs began to increase.

Figure 1: O&M Costs for Fiscal Years 1995 through 2005

Fiscal year 2007 dollars in billions

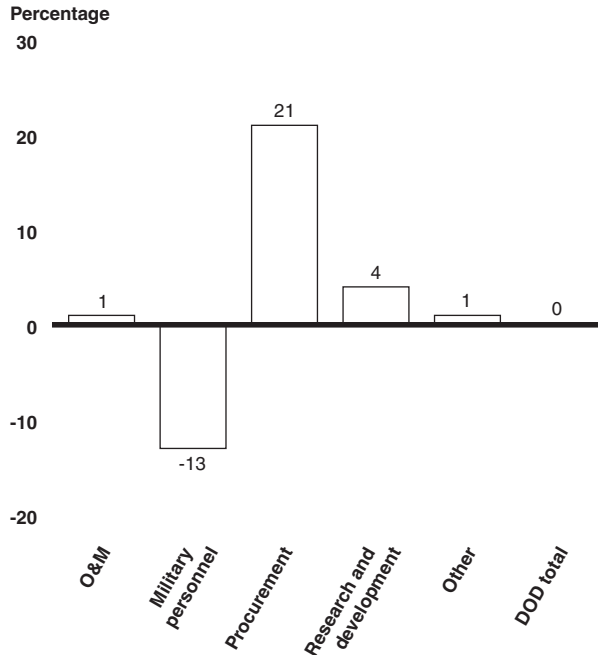


Source: GAO analysis of DOD data.

Note: The costs shown in the figure are actual total obligation authority, which includes regular O&M appropriations, any supplemental O&M appropriations, and any funding from other appropriation accounts transferred or reprogrammed into the O&M account during budget execution.

Figure 2 shows that during the first half of the 10-year period from fiscal year 1995 to fiscal year 2000, DOD's O&M costs increased about 1 percent. In comparison, costs in DOD's other major budget categories during this period changed as follows: military personnel costs declined about 13 percent; procurement costs increased about 21 percent; research and development costs increased about 4 percent; and other costs increased about 1 percent. DOD total costs were almost constant between fiscal year 1995 and fiscal year 2000.

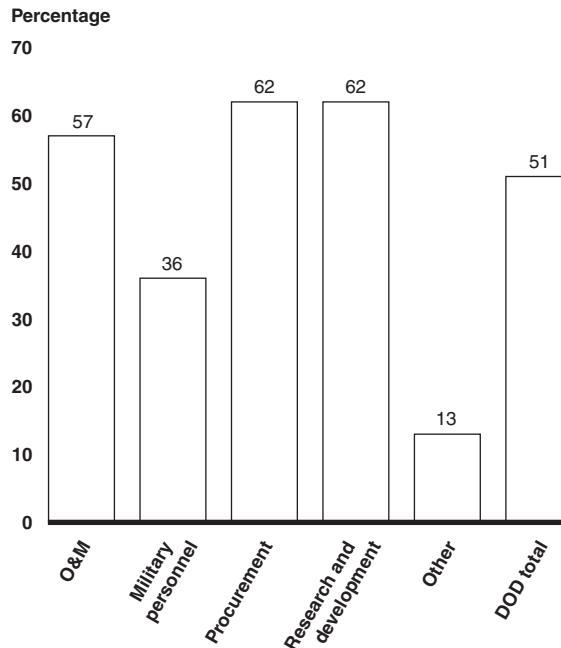
Figure 2: Percent Change in DOD Costs by Major Budget Category from Fiscal Year 1995 to 2000



Source: GAO analysis of DOD data.

Figure 3 shows that a significant change in cost growth occurred during the subsequent 5-year period from fiscal year 2000 to fiscal year 2005, when DOD's O&M costs increased about 57 percent. In the other major budget categories during this period, military personnel costs increased about 36 percent, procurement costs increased by about 62 percent, research and development increased by about 62 percent, and other costs increased about 13 percent. DOD total costs increased about 51 percent between fiscal year 2000 and fiscal year 2005.

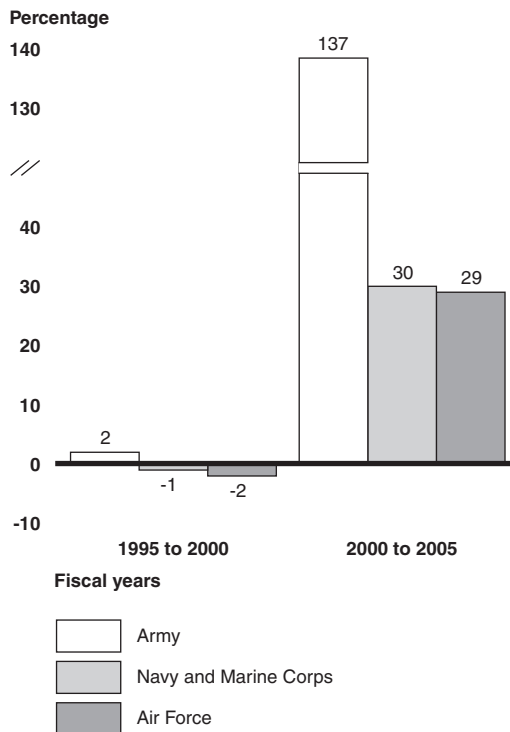
Figure 3: Percent Change in DOD Costs by Major Budget Category from Fiscal Year 2000 to 2005



Source: GAO analysis of DOD data.

Trends in O&M costs at the military service level generally reflect the overall DOD trend. As shown in figure 4, between fiscal years 1995 and 2000, little change occurred in each service's O&M costs. However, considerable cost growth occurred between fiscal years 2000 and 2005. Among the services, the Army had the largest percentage of growth in O&M costs between fiscal years 2000 and 2005. During this period, the Army's O&M costs increased by about 137 percent, while the Navy and Marine Corps' and the Air Force's O&M costs increased by about 30 percent and 29 percent, respectively.

Figure 4: Percent Change in the Services' O&M Costs



Source: GAO analysis of DOD data.

Increased Military Operations Were the Primary Reason for O&M Cost Growth

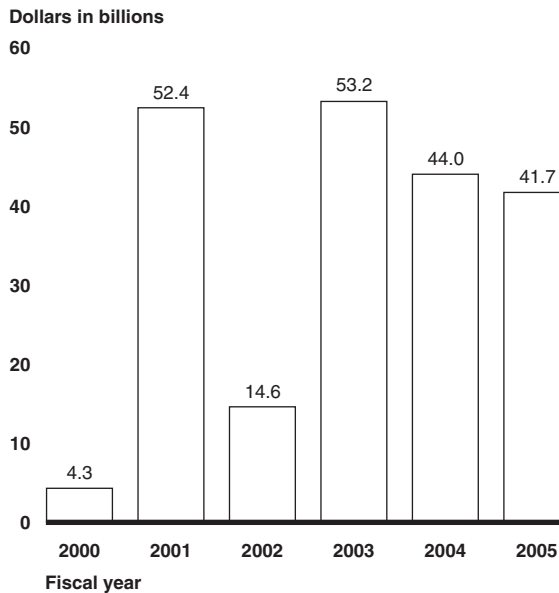
According to DOD and service officials, the primary cause for increased O&M costs since fiscal year 2001 is the increase in military operations associated with GWOT and other contingencies, including hurricane relief. However, the officials also stated that other factors have contributed to the growth in O&M costs, such as the aging of military infrastructure and equipment; increased costs for installation security, antiterrorism force protection, communications, information technology, transportation, and utilities; and certain changes in acquisition approaches.

The fight against terrorism has resulted in operations and deployments around the globe that are in addition to the usual peacetime operations. According to DOD, the related costs have included not only the personnel costs associated with mobilizing National Guard and reserve forces but also the costs of supporting these forces and the increased pace of operations. O&M-funded costs include a wide range of activities and services supporting operations including costs related to

(1) predeployment and forward-deployed training of units and personnel; (2) personnel support costs including travel, subsistence, reserve component personnel activation and deactivation costs, and unit-level morale, welfare, and recreation; (3) establishment, maintenance, and operation of housing and dining facilities and camps in the theaters of operation; (4) petroleum, oils and lubricants, spare parts, consumable end items, and other items necessary to support the deployment of air, ground, and naval units; (5) establishment, maintenance, and operation of facilities including funds for roads, water, supply, fire protection, hazardous waste disposal, force protection bunkers and barricades; (6) command, control, communications, computers and intelligence within the contingency areas of operations; (7) organization-level maintenance including repairs to equipment and vehicles; (8) intermediate- and depot-level maintenance of weapons and weapon system platforms requiring service after the wear and tear of combat operations; and (9) contracts for services for logistics and infrastructure support to deployed forces.

The additional military costs associated with GWOT and other contingencies have been primarily funded through supplemental appropriations. Figure 5 shows the annual amount of supplemental O&M funds appropriated each year from fiscal year 2000 through fiscal year 2005. During this period, supplemental O&M appropriations totaled about \$210 billion and, according to the services, additional amounts were transferred or reprogrammed from other accounts to the O&M accounts of the military services.

Figure 5: Supplemental O&M Appropriations for Fiscal Years 2000 through 2005

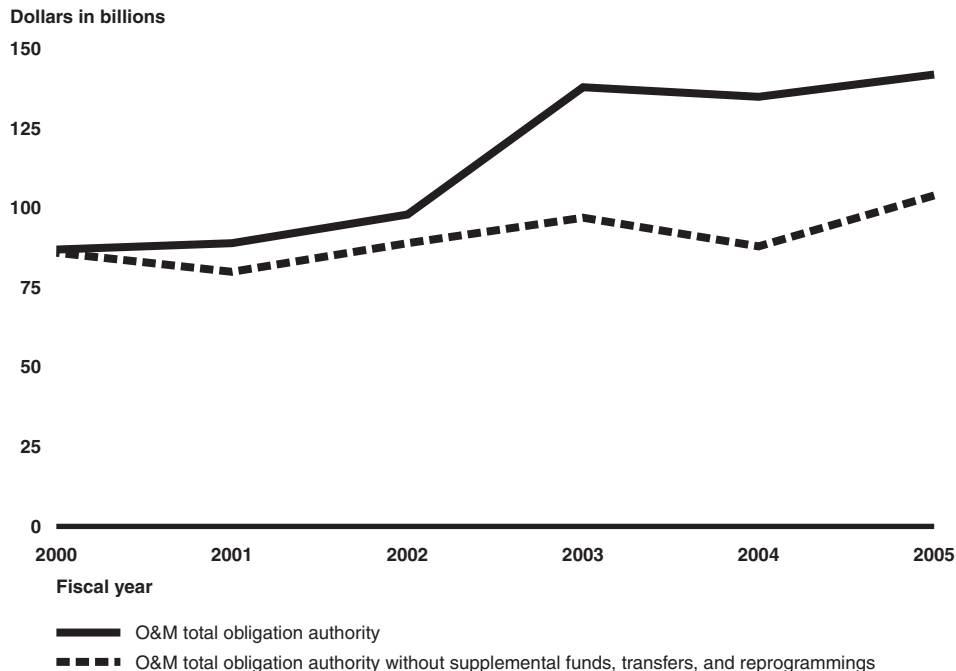


Source: GAO analysis of congressional data.

Note: GAO analyzed the annual supplemental O&M appropriations for DOD.

Although costs associated with the GWOT and other contingencies have been the primary reason for increased O&M costs between fiscal years 2000 and 2005, other factors also contributed to the O&M cost growth in the military services. To illustrate, if the services' annual O&M total obligation authority is adjusted by removing annual supplemental O&M appropriations and net transfers and reprogrammings into the O&M account, the result shows that O&M costs still grew during this time period, as illustrated in figure 6. Specifically, between fiscal years 2000 and 2005, O&M costs after the adjustment grew by about 44 percent in the Army, 17 percent in the Navy and Marine Corps, and 2 percent in the Air Force.

Figure 6: Services' O&M Costs with and without Supplemental Funding, Transfers, and Reprogrammings



Source: GAO analysis of congressional and DOD data.

Note: GAO analyzed annual supplemental O&M appropriations and DOD data on the military services excluding the services' reserve components.

According to service officials, baseline O&M costs have increased between fiscal years 2000 and 2005 because of many factors, such as aging of military infrastructure and equipment, and increased costs for installation security, antiterrorism force protection, communications, information technology, transportation, and utilities. Navy officials particularly cited the implementation of DOD's utility privatization program as a factor contributing to increased O&M costs. In a September 2006 report, we noted that DOD's utility costs could potentially increase by another \$954 million to pay costs associated with remaining utility systems that might be privatized.⁸ Increased O&M costs are also attributable to certain changes in DOD's acquisition approaches. For example, the Air Force historically bought space launch vehicles, such as the Delta and Titan

⁸GAO, *Defense Infrastructure: Actions Taken to Improve the Management of Utility Privatization, but Some Concerns Remain*, [GAO-06-914](#) (Washington, D.C.: Sept. 5, 2006).

rockets, as products paid for with procurement appropriations. Now, under the Evolved Expendable Launch Vehicle program, the Air Force uses O&M appropriations to purchase launch services using contractor-owned launch vehicles. The projected cost of this program is \$28 billion. Further, as we noted in our September 2006 report, the Army and the Air Force turned to service contracts for simulator training primarily because efforts to modernize existing simulator hardware and software had lost out in the competition for procurement funds.⁹ As a result, the simulators were becoming increasingly obsolete. Buying training as a service meant that O&M funds could be used instead of procurement funds.

DOD's Reliance on Contractors for Support Services Has Increased since Fiscal Year 2000 for Several Reasons

To meet military requirements during a period of increased operations without an increase in active duty and civilian personnel, DOD has relied not only on reserve personnel activations but also on increased use of contractor support in areas such as management and administrative services, information technology services, medical services, and weapon systems and base operations support. Between fiscal years 2000 and 2005, DOD's service contract costs in O&M-related areas increased over \$40 billion, or 73 percent. Table 1 highlights the growth in several service contract categories.

⁹GAO, *Contract Management: Service Contract Approach to Aircraft Simulator Training Has Room for Improvement*, [GAO-06-830](#) (Washington, D.C.: Sept. 22, 2006).

Table 1: Changes in Service Contract Costs in Selected Categories

Fiscal year 2007 dollars in billions

Service category	Contract costs		Change from fiscal year 2000 to 2005	
	Fiscal year 2000	Fiscal year 2005	Amount	Percentage
Professional, administrative, and management support	\$14.6	\$30.1	\$15.5	107
Maintenance and repair of equipment	7.7	12.3	4.6	60
Data processing and telecommunications	6.3	11.0	4.7	74
Medical	2.8	8.4	5.6	199
Maintenance and repair of real property	6.6	8.0	1.5	22
Utilities and housekeeping	3.9	7.0	3.1	79
Transportation and travel	3.4	6.6	3.3	97
Conservation and natural resources	1.7	2.3	0.7	39
Operation of government-owned facilities	2.3	2.1	(0.2)	-9
Technical representative services	1.4	1.7	0.3	23
Special studies and analyses	1.2	1.5	0.2	19
Modification of equipment	1.1	1.4	0.3	29
Educational and training services	1.1	1.4	0.3	23
Other ^a	1.3	2.0	0.7	58
Total	\$55.4	\$95.9	\$40.6	73

Source: GAO analysis of DOD data.

Notes: GAO analyzed DOD's DD350 database of all contracting actions exceeding \$25,000. Some numbers in the table may not calculate correctly due to rounding.

^a"Other" includes contracts for quality control, testing, and inspection; equipment lease, rental, and installation; social services; photographic, mapping, and printing services; and salvage services.

DOD officials noted several factors that have contributed to DOD's increased use of contractor support. First, the GWOT and other contingencies have significantly increased O&M requirements and DOD has met these requirements without an increase in active duty and civilian personnel. To do this, DOD relied not only on reserve personnel activations, but also on increased use of contractor support.

Second, Office of Management and Budget Circular A-76 notes that the long-standing policy of the federal government has been to rely on the private sector for needed commercial services and that commercial activities should be subject to the forces of competition to ensure that the

American people receive maximum value for their tax dollars.¹⁰ The circular notes that a public/private competition—which can involve a lengthy and costly process—is not required for contractor performance of a new requirement or private sector performance of a segregable expansion of an existing commercial activity. On the other hand, the circular states that before government personnel may perform a new requirement or an expansion of an existing commercial activity a public/private competition is required to determine whether government personnel should perform the work.

Third, DOD initiatives that have required that consideration be given to outsourcing certain work performed by uniformed and DOD civilian personnel have resulted in outsourcing decisions. For example, between fiscal years 1995 and 2005, DOD's competitive sourcing, or A-76 public/private competition, program resulted in 570 decisions to contract out work that had been performed by over 39,000 uniformed and DOD civilian personnel. Also, in 1997, DOD decided that privatization of military installation utility systems was the preferred method for improving utility systems and services because privatization would allow installations to benefit from private sector financing and efficiencies. As of March 2006, DOD had awarded contracts to privatize 117 systems and had an additional 904 systems in various phases of the privatization evaluation and solicitation process.

Fourth, service officials noted that in some instances certain personnel issues tend to favor the use of contractor support. For example, service officials stated that because of limitations on headquarters personnel authorizations, the use of contractor support is often the only readily available option to accomplish new or expanded commercial work requirements at service headquarters. Service officials also noted that it is generally easier to terminate or not renew a contract than to lay off government employees in the event of reduced work requirements. For this reason, use of contractor support is often favored when there is uncertainty over the length of time that support services will be needed, which is the case for some work supporting GWOT and other contingencies.

¹⁰Office of Management and Budget, Circular No. A-76 (Revised), *Subject: Performance of Commercial Activities* (Washington, D.C.: May 29, 2003).

Data Are Insufficient to Determine Whether Increased Services Contracting Has Exacerbated O&M Cost Growth

Sufficient data are not available to determine whether increased services contracting has caused DOD's costs to be higher than they would have been had the contracted activities been performed by uniformed or DOD civilian personnel. Although overall quantitative information was not available, our analysis of the military services' reported information from its competitive sourcing program, commonly referred to as the A-76 public/private competition process, and case studies of O&M-related work contracted out at three installations showed that outsourcing decisions generally resulted in reducing the government's costs for the work. However, compared to all O&M-related contracts, the number of A-76 public/private competition contracts is small, the results from this program may not be representative of the results from all services contracts for new or expanded O&M work, and certain limitations exist with the use of the A-76 data. Further, a recent DOD study found that the Army's use of contract security guards at domestic installations cost more than the use of guards employed by the Army.¹¹

Information Needed to Assess the Effect of Increased Services Contracting Is Unavailable

To determine whether increased services contracting has exacerbated the growth of O&M costs, information is needed that allows for a comparison of the contract costs with the costs of performing the same work in-house with uniformed or DOD civilian personnel. However, in most cases DOD does not know how much contracted services work would cost if the work were performed by government employees. DOD officials noted that existing policy generally does not require a public/private competition for private sector performance of a new or expanded commercial requirement and, as a result, in-house cost estimates have not been prepared for most of the work awarded to contractors as a result of increased O&M requirements from GWOT and other contingencies. In the absence of such quantitative data, information is not available to determine whether the government's costs are higher than they would have been had the contracted services work been performed by uniformed or DOD civilian personnel.

¹¹Deputy Under Secretary of Defense (Installations and Environment), *Report to Congress: Contractor Performance of Security Guard Functions* (Washington, D.C.: January 2007).

A-76 Public/Private Competition Data Indicate Outsourcing Decisions Were Cost-effective but Data Limitations Exist

While overall information was not available to determine whether increased services contracting has exacerbated O&M cost growth, DOD does maintain data on its competitive sourcing program, otherwise known as the A-76 public/private competition process, which allows a comparison of in-house and contract costs for some O&M related work. Specifically, DOD's A-76 program data include in-house and contract cost information on contracts for work formerly performed by uniformed or DOD civilian personnel that were awarded to the private sector as a result of a public/private cost competition or, under certain conditions prior to May 2003, direct conversion to contractor performance. As shown in table 2, of the 1,112 total A-76 public/private competition decisions that were made between fiscal years 1995 and 2005, the military services decided to outsource the work in 570, or 51 percent, of the cases. These decisions resulted in contracting out the work formerly performed by over 39,000 uniformed and DOD civilian personnel. In the remaining cases, based on the public/private cost comparison the military services decided to continue performing the work in-house.

Table 2: A-76 Public/Private Competition Decisions for Fiscal Years 1995 through 2005

Military service	A-76 decisions			Positions covered by A-76 decisions		
	Total	To outsource	Percent outsourced	Total	To outsource	Percent outsourced
Army	222	98	44	31,481	13,395	43
Navy	405	99	24	28,746	6,440	22
Marine Corps	35	15	43	4,072	1,214	30
Air Force	450	358	80	27,892	18,116	65
Total	1,112	570	51	92,191	39,165	42

Source: GAO analysis of DOD data.

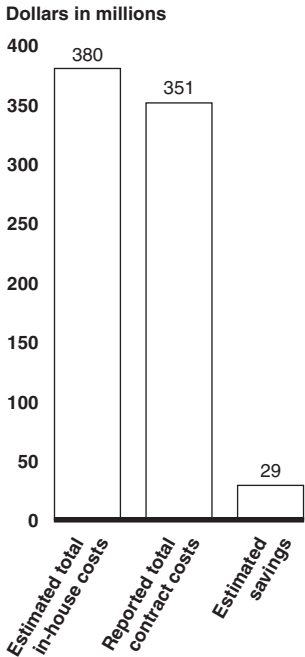
At the time of our review, the Army, Navy, Marine Corps, and Air Force had reported detailed contract cost data on 538 of the 570 A-76 decisions to outsource work. Our analysis of these data showed that the public/private competition decisions generally resulted in reducing the government's costs for the work.¹² Specifically, according to data reported

¹²Our analysis relied on the data reported by the services. We did not review the actual contracts.

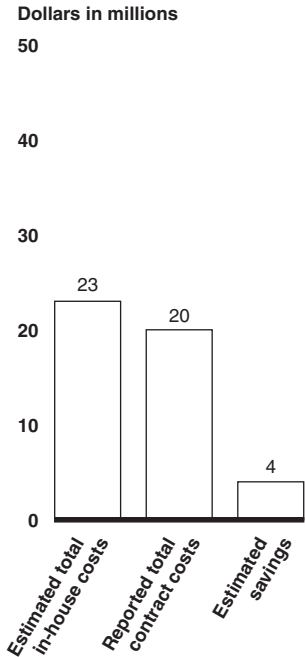
during the first contract performance period, the Army estimated savings of about \$33 million from 96 contracts, the Navy and Marine Corps estimated savings of about \$74 million from 88 contracts, and the Air Force estimated savings of about \$115 million from 354 contracts.¹³ Figures 7, 8, and 9 show each service's reported A-76 outsourcing information for contracts resulting from both public/private competitions and direct conversion from government to contractor performance between fiscal years 1995 and 2005.

Figure 7: First Performance Period Results from Army A-76 Public/Private Competition Decisions to Outsource Work between Fiscal Years 1995 and 2005

40 Army contracts resulting from public/private competitions



56 Army contracts resulting from direct conversion decisions



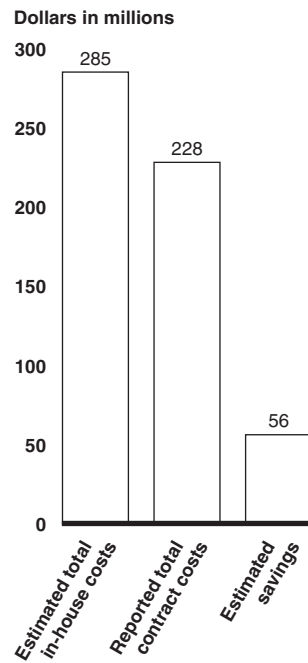
Source: GAO analysis of DOD data.

Note: Numbers in the figure may not total correctly due to rounding.

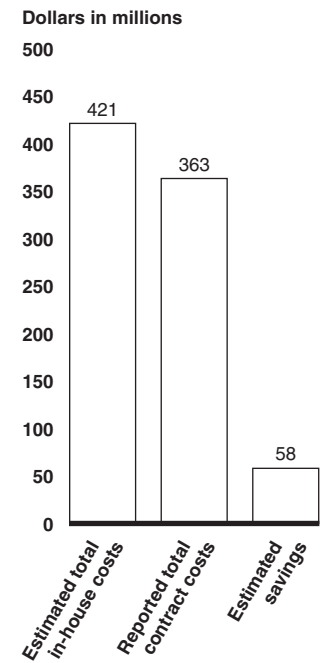
¹³ All amounts in this report related to A-76 contracts are in current year dollars—not fiscal year 2007 dollars.

Figure 8: First Performance Period Results from Navy and Marine Corps A-76 Public/Private Competition Decisions to Outsource Work between Fiscal Years 1995 and 2005

82 Air Force contracts resulting from public/private competitions



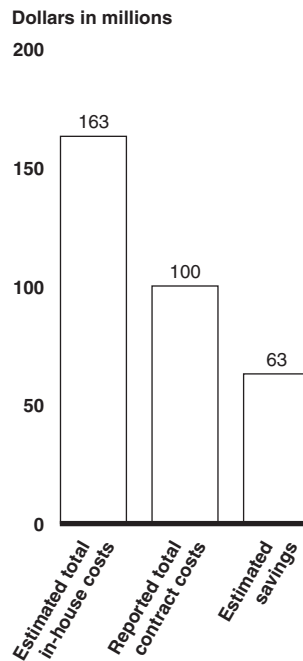
272 Air Force contracts resulting from direct conversion decisions



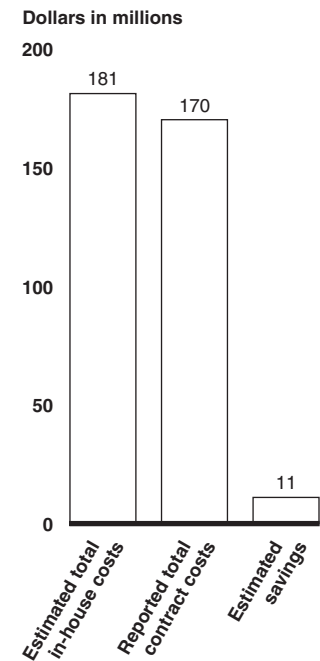
Source: GAO analysis of DOD data.

Figure 9: First Performance Period Results from Air Force A-76 Public/Private Competition Decisions to Outsource Work between Fiscal Years 1995 and 2005

35 Navy and Marine contracts resulting from public/private competitions



53 Navy and Marine contracts resulting from direct conversion decisions



Source: GAO analysis of DOD data.

Note: Numbers in the figure may not total correctly due to rounding.

Although the services' A-76 data show that decisions to outsource work were cost-effective, several limitations are associated with the use of this information. First, DOD officials noted that when work performed by uniformed personnel is outsourced, the personnel generally are assigned to other duties. Thus, while the cost to perform the outsourced work may be less than when it was performed in-house, the overall cost to the government may actually increase because the uniformed personnel continue to be paid to perform different work and a contractor is now paid to do the work formerly performed by the uniformed personnel. Also, outsourcing of work formerly performed by uniformed personnel may also increase O&M costs because military personnel appropriations are used to compensate uniformed personnel and O&M appropriations are used to pay contractors for services work.

Second, compared to all O&M-related contracts, the number of A-76 public/private competition contracts is small and the results from this program may not be representative of the results from all services contracts for new or expanded O&M work. For example, for the 538 A-76 outsourcing decisions for fiscal years 1995 through 2005 with reported cost data, the total contract value for the first performance period was about \$1.2 billion. Yet, in fiscal year 2005 alone, the value of DOD's O&M-related services contracts exceeded \$95 billion.

Third, the available A-76 public/private competition information compares the contract costs with the cost estimates for work using government employees during the first contract performance period. Our review of contract costs in subsequent performance periods showed that contractor costs frequently grew and in many cases exceeded the government employee cost estimate in subsequent periods. However, according to DOD cost information, the cost growth was usually attributed to requirements being added to the contract and contract wage increases, which the government employee cost estimate did not reflect. As a result, information is normally not available to determine whether the outsourcing continued to be cost-effective for those contracts that subsequently cost more than the estimate using government employees.

Fourth, the reliability of the services' reported A-76 public/private competition contract costs and savings appears questionable. The DOD Inspector General reported in November 2005 that DOD had not effectively implemented a system to track and assess costs of performance under the A-76 program.¹⁴ The report stated that because system users did not always maintain supporting documentation for key data elements and entered inaccurate and unsupported costs, and the military services used different methodologies to calculate baseline costs, DOD's A-76 database included inaccurate and unsupported costs, and as a result, reported costs and estimated savings may be either overstated or understated. DOD officials noted that, while the estimated savings may be either overstated or understated, there were still savings and that DOD was in the process of addressing the report's recommendations for improving the tracking system.

During our visits to Fort Hood, Naval Air Station Pensacola, and Langley Air Force Base, we reviewed the accuracy of reported cost information on

¹⁴See DOD Office of Inspector General, D-2006-028.

contracts awarded as a result of A-76 public/private competitions. According to information provided by Fort Hood officials, we found that actual contract costs were greater than the costs reported in the DOD A-76 database for one contract. However, the difference was less than 1 percent. At Naval Air Station Pensacola, there were no differences in the costs reported in the A-76 database and the actual costs for eight contracts awarded as a result of A-76 competitions. At Langley Air Force Base, we found some differences in the reported and actual costs for four contracts awarded as a result of A-76 competitions. For the four contracts over 4 years, the actual contract costs, according to installation officials, were about \$250,000, or 5 percent, more than reported in the database. However, even with the increased actual costs, the contracts still showed considerable savings over the estimated costs using government employees.

Case Studies Generally Show That Decisions to Contract Out Were Cost-effective

During our visits to Fort Hood, Naval Air Station Pensacola, and Langley Air Force Base, we reviewed examples of O&M-related work that was contracted out, or slated to be contracted out, either as a result of an A-76 public/private competition or because the uniformed personnel who formerly performed the work were needed to support other missions. According to installation officials, the outsourcing of work formerly performed in-house had not resulted in any unexpected funding or other consequences. Officials at each installation stated that their outsourcing efforts had resulted in reduced costs for performing the work and that they were satisfied with contractor performance. The following examples illustrate the outsourcing results from specific cases of work formerly performed in-house at the three installations we visited and in general show that the outsourcing efforts appeared to be cost-effective.

Fort Hood

- In June 2000, as a result of an A-76 public/private competition, Fort Hood contracted the operation and maintenance of the installation's firing range. During the A-76 competition, the cost estimate to continue performing the work in-house was \$37.1 million over the 4-year and 7-month total performance period. The estimate was based on using 118 civilian and 11 military personnel to do the work. The work was awarded to a contractor who bid \$30.8 million to perform the work. Fort Hood officials stated that between the time of the contract solicitation and the time the contractor took over range operations, changes occurred in unit training events and range operating standards which caused the work requirement to increase far above the level included in the solicitation's statement of work. As a

result, the officials stated that the contract was modified to provide for the increased workload and actual contract costs totaled \$38.2 million through the end of the total performance period in December 2004. Although the contract costs exceeded the in-house estimate by \$1.1 million, or 3 percent, Fort Hood officials stated that they were confident that the outsourcing was cost-effective because the in-house cost estimate would have exceeded the actual contract costs if the in-house estimate had included the cost of the workload subsequently added to the contract. The officials also stated that they were satisfied with the contractor's performance.

- In January 2003, Fort Hood contracted the installation's ammunition supply work because the uniformed personnel who formerly performed the work at Fort Hood were needed to help support the GWOT. According to installation officials, the work, which included the receipt, storage, and issue of training ammunition, had historically been performed by approximately 180 uniformed personnel, who were also responsible for completing collateral military duties. The officials stated that the work was converted to contractor performance by modifying an existing Fort Hood support services contract to add the ammunition supply work for about \$1.8 million annually. According to the officials, the contractor used between 45 and 56 people to do the work, and performance metrics, such as inventory accuracy, improved after the contractor took over the work. Although an analysis was not performed to compare the contract cost with the cost to perform the work with uniformed personnel, Fort Hood officials stated that they believe that the outsourcing was cost-effective because the contractor was performing the work with far fewer people compared to the number of uniformed personnel who formerly did the work. The officials stated that a new contract for the work was awarded in June 2006 at an annual cost of about \$2.3 million. The officials attributed the increase in contract costs to new requirements that were added to the scope of the work.

Naval Air Station Pensacola

- In January 2001, as a result of an A-76 public/private competition, Naval Air Station Pensacola contracted the installation's receipt, storage, and distribution of petroleum, oil, and lubrication products. The work had previously been performed by 14 civilian personnel at an estimated annual cost of about \$700,000. During the A-76 competition, the cost estimate to continue performing the work using government employees was \$355,000 annually based on reducing the number of employees needed to do the work to seven. Naval Air Station Pensacola officials stated that the work was awarded to a contractor who bid \$250,000 annually to do the work.

This amount was about \$450,000 less than the original cost of the work and about \$105,000 less than the estimate to continue performing the work in-house. Primarily because of added work requirements, reported data showed that the actual contract costs increased to \$315,000 by the fifth contract performance period. Nevertheless, Naval Air Station Pensacola officials noted that this outsourcing effort continued to cost less than the estimated cost to perform the work in-house. The officials also stated that they were satisfied with the contractor's performance.

- In March 2002, as a result of another A-76 public/private competition, Naval Air Station Pensacola contracted the management of household goods shipments for military personnel arriving and departing the installation. The work had previously been performed by 21 civilian personnel at an estimated cost of about \$6.1 million over a 5-year period. During the A-76 competition, the cost estimate to continue performing the work in-house was \$3.8 million over the 5-year total contract performance period, based on streamlining the work and reducing the number of employees needed to do the work. Naval Air Station Pensacola officials stated that the work was awarded to a contractor who bid \$2.8 million to perform the work over the total performance period. This amount was about \$1.1 million less than the in-house estimate. Through the first 3 years and 3 months of the contract, reported data showed that the actual contract costs were about 13 percent higher than the contractor's bid amount but were still less than the estimated cost to perform the work in-house. Naval Air Station Pensacola officials stated that contract costs were higher because of wage rate increases. The officials also stated that they were satisfied with the contractor's performance.

Langley Air Force Base

- In June 2000, as a result of an A-76 public/private competition, Langley Air Force Base contracted transient aircraft services work. During the A-76 competition, the cost estimate to continue performing the work in-house was \$1.1 million annually based on using 14 military and 7 civilian personnel to do the work. According to Langley Air Force Base officials, the work was awarded to a contractor who bid \$365,000 to perform the work, and the actual contract cost to perform the work during the first performance period was about \$374,000. This amount was about \$726,000, or about 66 percent, less than the estimated cost to do the work in-house. Although reported data showed that contract costs increased by 8 percent by the third contract performance period primarily because of wage rate adjustments, the contract still cost less than the estimated in-house cost to perform the work. Langley Air Force Base officials stated that they were

satisfied with the contractor's performance and that the contract was recompeted in 2003 and awarded at approximately the same cost.

- In October 2001, as a result of another A-76 public/private competition, Langley Air Force Base contracted certain records management services. During the A-76 competition, the cost estimate to continue performing the work in-house was \$643,000 annually based on using 13 uniformed personnel to do the work. According to Langley Air Force Base officials, the work was awarded to a contractor who bid about \$337,000 to perform the work during the first annual performance period. This amount was \$306,000, or about 48 percent, less than the estimated cost to perform the work in-house. According to the available data and Langley Air Force Base officials, the actual contract cost during the first performance period was the same as the bid amount. Although reported data showed that contract costs increased to about \$394,000 by the fifth contract performance period primarily because of wage rate adjustments, the officials noted that the cost was still less than the in-house estimate for the work. The officials also stated that they were satisfied with the contractor's performance.

DOD Report Noted That Contract Security Guards Cost More than Government-Employed Guards

A recent DOD report provides another comparison of costs for work performed by contractors and government personnel.¹⁵ In this case, DOD found that contract security guards at domestic installations cost more than use of guards employed by the government. However, as with the reported results from A-76 contracts, because the data used in DOD's report is from a relatively small number of contracts, the results may not be representative of the results of all O&M related services contracts.

The John Warner National Defense Authorization Act for Fiscal Year 2007 required the Secretary of Defense to submit a report including an explanation of the Army's progress in responding to our April 2006 report that assessed the Army's acquisition of security guards and an assessment of the cost-effectiveness and performance of contract security guards.¹⁶ Our report noted that in the aftermath of the September 11, 2001, attacks, DOD sent numerous active-duty, U.S.-based personnel to Afghanistan,

¹⁵See Deputy Under Secretary of Defense (Installations and Environment), *Report to Congress: Contractor Performance of Security Guard Functions* (January 2007).

¹⁶John Warner National Defense Authorization Act for Fiscal Year 2007, Pub. L. No. 109-364, § 333 (2006).

Iraq, and other destinations to support the GWOT.¹⁷ These deployments depleted the pool of military security guards at a time when DOD was faced with increased security requirements at its U.S. installations. To ease this imbalance, the Congress authorized DOD to waive a prohibition against the use of contract security guards at domestic military installations. The Army, the first service to use the authority, had awarded contracts worth nearly \$733 million for contract guards at 57 installations as of December 2005.

Our report also noted that the Army had relied heavily on sole-source contracts to acquire contract security guards, despite the Army's recognition early on that it was paying considerably more for its sole-source contracts than for those awarded competitively. Our report made recommendations to the Secretary of Defense to improve management and oversight of the contract security guard program.

In early 2007, DOD issued its report, which stated that the Army concurred with our recommendations and was in the process of resoliciting security guard contracts to increase the use of competition. In regard to comparing the costs of government-employed and contract security guards, DOD reported that the contract security guards were more expensive than use of government guards. However, the amount of the cost difference varied widely depending on whether the contract was awarded competitively. In cases where the contracts were awarded competitively, the contracts cost about 5 percent more than use of government guards. However, in cases where the contracts were not awarded competitively; the contracts cost about 42 percent more than government guards. DOD's report also noted its view that the security guard contracts provided greater flexibility in this instance to adjust the workforce level up or down when the threat level changes and a performance test showed no difference in the effectiveness between government and contract security guards.

¹⁷GAO, *Contract Security Guards: Army's Guard Program Requires Greater Oversight and Reassessment of Acquisition Approach*, [GAO-06-284](#) (Washington, D.C.: Apr. 3, 2006).

Different Perspectives Exist on the Benefits and Concerns Associated with Increased Contracting for Support Services

DOD officials cited several benefits associated with the increased use of contractors for support services in certain circumstances. On the other hand, concerns over increased contracting have also been cited by the Congress, the military services, and us.

Benefits from Increased Use of Contractor Support

DOD officials noted that when expanded military missions, deployments, and other contingencies increase operational requirements, additional personnel are needed to perform the extra work. For mission support work, additional personnel might be obtained from several alternatives, such as increasing the size of the active military force, mobilizing reserve forces, hiring government employees, or contracting for services with the private sector. In certain circumstances, the officials stated that increased use of contractor support to help meet expanded mission support work has certain benefits. For example, the officials noted that the use of contractors can provide a force multiplier effect when contractor personnel perform military support missions to allow more uniformed personnel to be available for combat missions. Moreover, contractors can provide support capabilities that are in short supply in the active and reserve components, thus reducing the frequency and duration of deployments for certain uniformed personnel. The officials also stated that obtaining contractor support in some instances can be faster than hiring government workers and, when there is uncertainty over the length of time that support services will be needed, the use of contractor support instead of government employees can be advantageous because it is generally easier to terminate or not renew a contract than to lay off government employees when the operations return to normal. Further, the officials stated that they believed that contracts for new and expanded requirements can be cost-effective when the contracts are subjected to the forces of competition in the private sector.

Concerns from Increased Use of Contractor Support

Recently cited concerns associated with increased use of contractor support have included (1) the need for DOD to consider performing more work using government employees, (2) controlling support services contract costs, (3) reduced operational flexibility resulting from some outsourcing contracts, (4) the difficulty in ensuring accurate contract statements of work and sufficient contract oversight, and (5) questions on the adequacy of DOD's services acquisition process.

**The Congress Recently
Required DOD to Consider
Performing More Work In-
house**

The National Defense Authorization Act for Fiscal Year 2006 required DOD to prescribe guidelines and procedures for ensuring that consideration is given to performing more work using government employees.¹⁸ Section 343 of the Act requires the Secretary of Defense to prescribe guidelines and procedures for ensuring that consideration is given to using government employees for work that is currently performed or would otherwise be performed by contractors. The guidance is to provide for special consideration to be given to contracts that (1) have been previously performed by federal government employees at any time on or after October 1, 1980; (2) are associated with the performance of inherently governmental functions; (3) were not awarded on a competitive basis; or (4) have been determined to be poorly performed due to excessive costs or inferior quality. In February 2007, DOD officials stated that they had been working on developing the required guidelines and that they planned to issue the new guidance in the near future. The officials also stated that the use of government employees instead of contractors to meet O&M-related requirements in some circumstances might result in savings.

**Military Services Have Taken
Steps to Control Support
Services Contract Costs**

Each of the military services has expressed concerns over increasing contract costs for support services. Citing the need to control costs, the Secretaries of the Army and the Air Force have issued policy memorandums calling for review and reduction in services contracts. For example, the Secretary of the Army stated in a January 2007 memorandum that he expected to see significant reductions in the number of Army contracted services personnel during the remainder of fiscal year 2007. Also, in a March 2006 memorandum, the Secretary of the Air Force set targets for realizing estimated savings in Air Force contract support services costs. Navy officials stated that although they have not issued any new policy statements on contracted services, the issue is a concern. The officials stated that the Navy proactively reduced its planned contractor support budgets in both fiscal year 2007 and 2008.

**Installation Officials Noted
Reduced Flexibility in Some
Instances and Other Concerns
with Outsourcing**

During our installation visits, local officials noted some concerns with outsourcing of support services. For example, Fort Hood officials stated that outsourcing of work formerly performed in-house can result in reduced flexibility in being able to quickly respond to changing requirements. The officials noted that in some instances when a new or different work requirement develops, uniformed and DOD civilian personnel can be reassigned to perform the tasks on a temporary basis or

¹⁸National Defense Authorization Act for Fiscal Year 2006, Pub. L. No. 109-163, § 343 (2006).

GAO Has Noted Concerns with Services Acquisition

as a collateral duty. However, before contractors perform new or different work requirements, contract changes normally have to be negotiated, which can result in delays before the new work is started. Installation officials also noted concern over the difficulty in preparing accurate contract statements of work in order to avoid contract changes. Naval Air Station Pensacola officials stated that in some cases numerous contract changes occurred when the original statement of work did not anticipate or accurately define certain work situations. Further, installation officials cited concerns over ensuring adequate contract oversight. Officials at Naval Air Station Pensacola noted that ensuring adequate oversight becomes increasingly difficult as the number of contracts increases.

In November 2006, we reported that DOD's approach to managing service acquisitions has tended to be reactive and has not fully addressed the key factors for success at either the strategic or transactional level.¹⁹ As a result, the growth in service contracting over the past 10 years was, in large part, not a managed outcome. Further, DOD's approach did not always take the necessary steps to ensure customer needs were translated into well-defined contract requirements or that postcontract award activities resulted in expected outcomes. As a result, DOD was potentially exposed to a variety of risks, including purchasing services that did not fully meet customer needs or that should have been provided in a different manner or with better results. Also, in January 2007 testimony before the Subcommittee on Readiness and Management Support, Senate Committee on Armed Services, we noted that long-standing problems with contract management continue to adversely affect service acquisition outcomes even as DOD has become more reliant on contractors to provide services for DOD's operations.²⁰ For example, the lack of sound business practices—poorly defined requirements, inadequate competition, and inadequate monitoring of contractor performance—exposes DOD to unnecessary risk and wastes resources. We have found cases in which the absence of well-defined requirements and clearly understood objectives complicates efforts to hold DOD and contractors accountable for poor service acquisition outcomes. Likewise, obtaining reasonable prices depends on the benefits of a competitive environment, but we have reported on cases in which DOD sacrificed competition for the sake of expediency. Monitoring contractor performance to ensure DOD receives

¹⁹See [GAO-07-20](#).

²⁰GAO, *Defense Acquisitions: DOD Needs to Exert Management and Oversight to Better Control Acquisition of Services*, [GAO-07-359T](#) (Washington, D.C.: Jan. 17, 2007).

and pays for required services is another control we have found lacking. In the testimony, we noted DOD has taken some steps to improve its management of services acquisition, and it is developing an integrated assessment of how best to acquire services.

Concluding Observations

DOD's O&M costs and reliance on contractors to perform O&M-related work have increased substantially since fiscal year 2001. However, sufficient data are not available to determine whether increased services contracting has caused DOD's costs to be higher than they would have been had the contracted activities been performed by uniformed or DOD civilian personnel. While we believe that there may be some merit in DOD developing more information on the cost-effectiveness of its O&M services contracts that fall outside of the A-76 public/private competition process, at this time we are not recommending that DOD do this for several reasons. First, performing the analyses to determine the estimated in-house costs to perform work awarded to contractors can be expensive and time consuming. Second, according to DOD officials, contracting with the private sector may be the only alternative to meet certain requirements in the short term, such as when uniformed personnel must be diverted from performing peacetime work to supporting operational missions. Third, as long as DOD uses competition in its contract solicitations for new and expanded requirements and provides adequate contract oversight, cost efficiencies could be achieved through normal market forces.

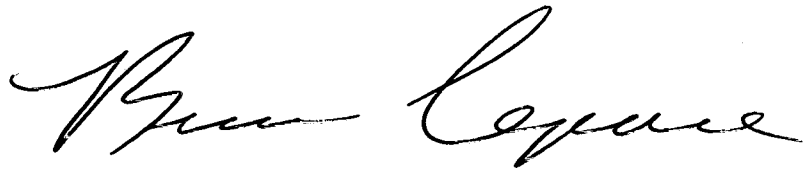
Agency Comments

DOD made no comments on a draft of this report except for technical comments, which we incorporated where appropriate.

We are sending copies of this report to the Secretaries of Defense, the Army, the Navy, and the Air Force; the Commandant of the Marine Corps; and the Director, Office of Management and Budget. We will make copies available to others upon request. In addition, the report will be available at no charge on GAO's Web site at <http://www.gao.gov>.

If you or your staff have any questions about this report, please contact me at (202) 512-4523 or by e-mail at leporeb@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the

last page of this report. The GAO staff members who made key contributions to this report are listed in appendix II.

A handwritten signature in black ink, reading "Brian Lepore". The signature is fluid and cursive, with the first name "Brian" and last name "Lepore" clearly distinguishable.

Brian J. Lepore, Director
Defense Capabilities and Management

List of Committees

The Honorable Carl Levin
Chairman
The Honorable John McCain
Ranking Member
Committee on Armed Services
United States Senate

The Honorable Daniel K. Inouye
Chairman
The Honorable Ted Stevens
Ranking Member
Subcommittee on Defense
Committee on Appropriations
United States Senate

The Honorable Ike Skelton
Chairman
The Honorable Duncan L. Hunter
Ranking Member
Committee on Armed Services
House of Representatives

The Honorable John P. Murtha
Chairman
The Honorable C.W. Bill Young
Ranking Member
Subcommittee on Defense
Committee on Appropriations
House of Representatives

Appendix I: Scope and Methodology

To identify the trends in operations and maintenance (O&M) costs and services contracts and the reasons for the trends, we reviewed and analyzed the Department of Defense's (DOD) O&M appropriations, budget documentation, and services contract costs and identified the related trends for fiscal years 1995 through 2005. We used costs as reflected by total obligation authority, which includes regular O&M appropriations, any supplemental O&M appropriations, and any funding from other appropriation accounts transferred or reprogrammed into the O&M account during budget execution. To consider inflation, we adjusted cost data to constant fiscal year 2007 dollars using DOD's adjustment factors. We discussed with DOD and service headquarters officials the reasons for the trends in O&M costs and how outsourcing of O&M activities formerly performed in-house has affected the overall O&M budget. We shared the results of our analyses with DOD and service officials and incorporated their comments as appropriate.

To discuss whether increased services contracting has exacerbated the growth of O&M costs, we determined the availability of information related to services contracts including whether in-house cost estimates were available for all contracts for new or expanded work awarded as a result of the global war on terrorism (GWOT) and other contingencies. We also reviewed and analyzed information from DOD's competitive sourcing, or A-76, program. Further, we visited three installations—Fort Hood, Texas; Naval Air Station Pensacola, Florida; and Langley Air Force Base, Virginia—to develop case study examples of O&M-related work that was contracted out either as a result of A-76 public/private competitions or because the uniformed personnel who formerly performed the work were needed to support other missions. Fort Hood and Langley Air Force Base were selected based on discussions with our requesters, and Naval Air Station Pensacola was selected based on recommendations from Navy officials who stated that the installation had a cross section of contracts for O&M work that was formally performed in-house. At each installation, we reviewed O&M budget information and discussed with local officials any adverse consequences associated with contracting out O&M-related work. For the case studies highlighting examples of work that was outsourced to private contractors, we identified cost estimates for the work if performed by government employees, the reasons that the work was contracted out, the actual contract costs, and the reasons for any contract cost growth. We relied on cost data provided by the installation officials and did not review any actual contracts. However, we did review the accuracy of reported information on selected contracts awarded as a result of A-76 public/private competitions.

To provide perspectives on the benefits and concerns associated with increased contracting for support services, we discussed this issue with DOD officials. We also examined DOD's response to recent legislation requiring DOD to give consideration to performing more work using government employees. We also discussed with DOD and service headquarters officials the effect of increased contracting support for support services and reviewed steps recently taken by the military services to control service contract costs. We also discussed with installation officials concerns associated with outsourcing O&M-related work that was formally performed in-house. Additionally, we summarized recent GAO reports that identified concerns with DOD's acquisition of services.

We conducted our review from August 2006 through March 2007 in accordance with generally accepted government auditing standards.

Appendix II: GAO Contact and Staff Acknowledgments

GAO Contact

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In addition to the contact named above, Mark A. Little, Assistant Director; Alissa Czyz; Kevin Keith; Harry Knobler; Gary Phillips; and Sharon Reid made key contributions to this report.

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